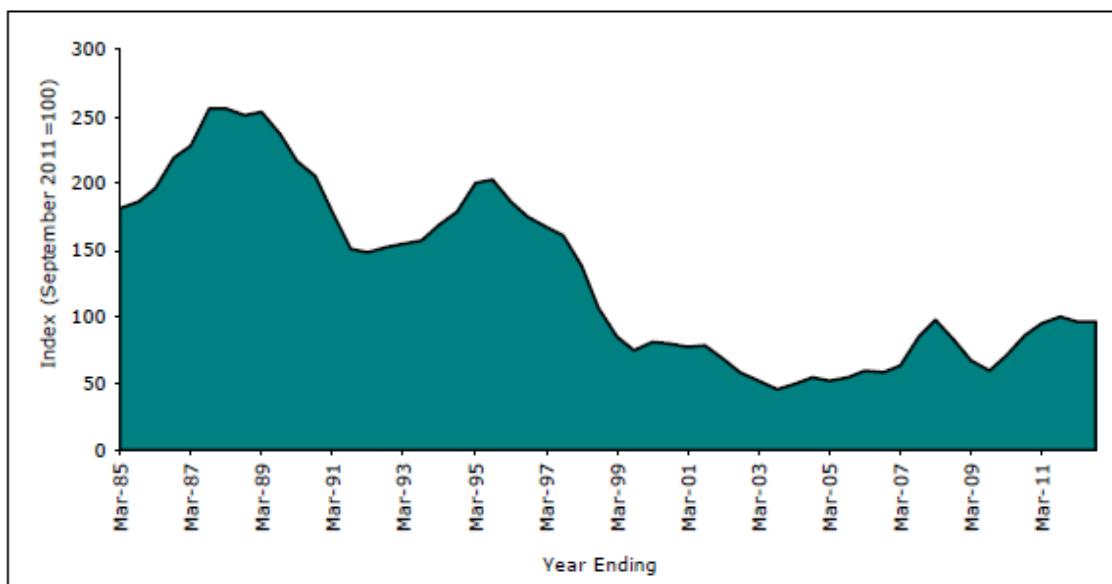


## Does UK biomass affect wood prices?

It has been argued that biomass is in competition with the construction, joinery and other sectors for forestry produce. Subsidies for biomass, some people claim, are responsible for raising the price of wood. In fact, the evidence indicates that the opposite is true.

### Wood prices have fallen significantly over the last 20 years

**Chart 2: Coniferous Standing Sales Price Index for Great Britain**  
(Fisher Index year ending September 2011 = 100, real terms)

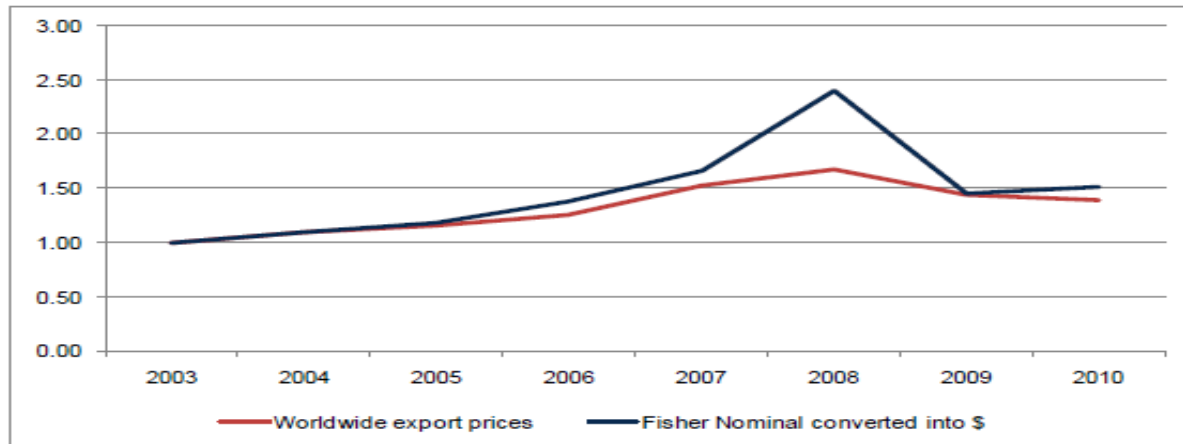


**Figure 1**

Source: Based on *Timber Price Indices, September 2012, UK Forestry Commission*

Although standing timber prices have risen over the past five years, Figure 1 demonstrates that real terms prices are still around half the price paid 20 years ago. Even in cash terms (i.e. excluding inflation) the price paid in 2011 was around 15% lower than in 1996. The latest issue of *Timber Price Indices* (May 2013) shows that in real terms the price of Standing Coniferous timber (for the year ending March 2013) was 7.7% lower than the same time last year and 41.8% lower than twenty years ago. Looking ahead, projections from AEA suggest the global price of biofeed is likely to increase by no more than 10% between 2010 and 2020, after which they will level out and remain roughly unchanged in real terms.

### Wood prices are fixed by international market forces, not UK activity



**Figure 2**

Source: Based on *Bioenergy Strategy Analytical Annex, April 2012, DECC*

The graph in Figure 2 compares global wood prices to UK wood prices from 2003 to 2010. It shows that a small shift in global prices can create a very large change in the UK. This is because the UK is a 'price taker', not a 'price maker' (i.e. we have no bargaining power in the global market).

UK wood prices are affected by a range of complex international factors. For example, exchange rate movements (including the falling value of the Pound against a basket of international currencies) have contributed significantly to recent price fluctuations.

At just 0.2% of the world primary demand in 2010, UK wood consumption isn't big enough to influence prices to any significant degree. Current projections show this share at no higher than 0.6% by 2020.

### **This is not a 'zero sum' game: there is significant spare woodland capacity within the UK and internationally**

48% of forests in England are unmanaged, because there is currently no demand for their products. Demand from the biomass industry for forest by-products makes it more economically efficient for landowners to manage their forests sustainably rather than leaving it fallow or, in worst cases, selling it for development. The knock on effect that more woodland is brought under active management, and the economic value and environmental profile of UK forests improves.

The Government believes the biomass industry can play a key part in making it economic to manage these forests, and also that biomass supply chains have huge potential to increase overall supplies of wood. Wood supplies actually rose by 7% between 2007 and 2010. According to DECC's Bioenergy Strategy, evidence suggests this was the result of rising demand for wood fuel being met by the development of woodfuel supply chains, rather than a reduction in the demand for wood from sawmill or wood panels. Not only is this positive environmentally, it also benefits other forest-product industries too.